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Canadian GDP (Feb, Mar adv): Trying to weather the storm

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GDP (period/period % chg)	24:Q3	24:Q4	Dec	Jan	Feb	Feb Y/Y
GDP (at basic prices)	1.5	1.8	0.3	0.4	-0.2	1.6
• Goods-producing	-0.9	1.6	0.3	1.1	-0.6	1.2
• Services-producing	2.4	1.9	0.3	0.1	-0.1	1.7
• Business	0.8	2.1	0.3	0.4	-0.3	1.3
• Non-business	4.1	0.5	0.1	0.3	0.0	2.6

Source: Statistics Canada

- The Canadian economy appeared to be weathering the tariff storm better than the weather itself during February. GDP fell by 0.2% on the month, albeit driven largely by sectors that were adversely impacted by worse than normal winter weather. Manufacturing and wholesaling, which are likely to see negative impacts from tariffs ahead, both managed to post growth in February. With Q1 growth now tracking slightly below the Bank of Canada's MPR projection, and with weak momentum heading into Q2, we continue to expect a 25bp cut at the June meeting.
- The 0.2% drop in GDP was weaker than the consensus forecast for a flat reading, although followed a strong 0.4% advance in the prior month. The contraction was driven by mining, oil & gas, transportation and real estate. Statistics Canada noted harsh weather in the Atlantic ocean as hindering oil production from Newfoundland & Labrador, while major snowstorms in central/eastern Canada impacted rail and road transportation. Weather conditions could have also played a part in declines seen in the construction and real estate sectors, although tariff uncertainty could also have negatively impacted the latter.
- Manufacturing and wholesaling activity, which are likely to be most adversely impacted by tariffs ahead, both increased for a second consecutive month in February in what could reflect efforts to front-run potential US tariffs after Canada was targeted but then granted a temporary reprieve early in the month. However, advance data point to declines in both sectors during March, and in the case of manufacturing the level of activity in February was still 1.6% down on a year-over-year basis and 6% below its March 2022 peak.
- The advance reading for March pointed to a marginal increase of 0.1%, although that may be largely driven by a rebound in mining, oil & gas. For Q1 as a whole, today's advance data suggests growth of 1.5% annualized, which is only slightly below the Bank of Canada's MPR projection of 1.8%. However, the growth in Q1 was driven in part by tariff front-running activity early in the year, and momentum clearly faded later in the quarter.

Implications & actions

Re: Economic forecast — Given that Q1 growth was partly driven by tariff front-running activity, and that new tariffs have been applied on Canadian goods subsequently, we continue to expect a modest contraction in GDP during the second quarter of the year. That would be closer to the Bank of Canada's more pessimistic scenario 2 projection within the April MPR, and evidence of this within upcoming data should bring a 25bp interest rate cut at the June meeting.

Re: Markets — Bond yields and the Canadian dollar were both slightly lower after the release of the weaker-than-expected February GDP data.

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